Australian Creative Industries SMEs

- PATHWAYS TO SUCCESS -

ENTERPRISE CONNECT

A paper prepared for the
Creative Industries Innovation Centre
Interim Advisory Board
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OUTLINE OF STUDY REQUEST

A literature review of existing studies on pathways to success for firms in the creative industries, including an insight into specific issues and obstacles that these firms may face (addressing the CIIC board's particular issues).

The particular issues which the study should examine include:

- Are there generic pathways to success in the creation and development of creative industries firms? What drives business failure and business success in these sectors and are these factors different to the experience in other sectors. Comparison of data on firm sustainability and failure supplemented by limited qualitative approaches would be useful.
- Is there evidence to support the conjecture that firms in the creative sector are more likely to reorganise and reform over time than firms in other sectors. If this is the case, is this a problem for the sector?
- Are there issues relating to the unique skills and contributions of individuals within the creative sector which might negate generalised business growth models.
- Do firms in the creative sector face different obstacles to firms in other sectors?
- What are the aspirations of creative firms compared to others? In particular is there a commitment to artistic excellence which means that creative firms are focused on different goals.

Executive Summary

The paper presents a review of research on firms within the creative industries sector. Where possible, relevant information has been sourced from Australian research, however in many cases the available research is from overseas, particularly the UK. This highlights the role the Creative Industries Innovation Centre can have in collecting valuable data and insights on the realities of Australian creative industries firms and their challenges and opportunities.

Key points from the literature review are:

- The creative industries sector is extraordinarily diverse and as such, the problems faced by firms in the sector vary widely.
- Some characteristics which can set creative industries firms apart from other firms include:
  - more likely to be at the micro end of the SME spectrum (sole operators)
  - often highly reliant on informal networking and so tend to cluster together
  - core work is often project based
  - product and services are often intangible
- At times, the uniqueness of their product means the value of the product is not know until it is produced and sold
- The sector experiences a slightly higher rate of churn in firms compared to other firms in Australia.

This report looks at a possible model for the growth of creative firms. However finding one model that covers the evolution of a wide range of diverse firms in different markets is probably impossible.

Enterprise Connect uses a more flexible approach, developed in the UK, which better reflects the reality of firm development – regardless of their industry or size. Under this model, firms face crises or 'tipping points' in six key areas which they either move through and grow; or struggle with and consequently resign ambitions for growth.

The key areas are:

- people management
- strategy
- formalised systems
- new market entry
- obtaining finance
- operational improvement.

Firms rarely have the internal skills to manage through all of these areas and so providers of business assistance need to ensure they can. We believe this framework is equally applicable to the creative sector.

Within this framework, there are particular issues that are faced by creative industry firms including:

- Sector/firm specific strategic issues
- Markets for creative industry output

- Finance
- Intellectual Property
- Management skills and organisational creativity
- Networks and clustering
- Technology

The paper discusses what Enterprise Connect has found in over 1100 clients so far. A general observation has been that the management and systems that underpin many clients (including quite large firms) are often rudimentary. Given this, most of the recommendations relate to general business improvement or basic strategy/business planning rather than building capabilities for expansion and growth.

Many Business Advisers observe that firms often lack, but need to develop a basic set of systems, and some sort of forward plan or strategy on which to further develop their business. It is only when these are in place that firms can sensibly think about growth expansion options.

However, the future competitive position of Australian SMEs generally cannot just rely on being well run and efficient, they must be able to generate new sources of distinctive and enduring competitive advantage for their businesses. Although not all Enterprise Connect clients may wish to embark on such a strategy, the program needs to identify and help those that do.

In conclusion, the paper notes that Enterprise Connect has a core philosophy – that our interactions with our client are driven by their particular circumstances and business goals. The program is wary about being overly prescriptive about clients and what they might need. Creative SMEs have many similarities to other SMEs – but also some subtle differences. With the help of the Interim Advisory Board, the program will learn and evolve its services for the creative sector.

Introduction

It is only in recent times that the creative industries have come to be considered as a definable sector within the economy. Whilst creative industries were once largely appreciated for their contribution to the richness of life, they are now increasingly appreciated for their contribution to the economy.

As creative industries have risen to prominence as a sector, the interest and value in studying them, analysing them and understanding them has grown. Some of that interest has come about as a result of studies which have uncovered the fundamental role creativity plays in innovation. But research has also revealed an understanding of how the creative industries make a contribution to the economy such as by an increasing demand for their outputs as well as their influence and contributions to other sectors.

This paper presents a review of research into the creative industries. In keeping with the needs of the Creative Industries Innovation Centre (CIIC) Interim Advisory Board (the Board), it provides an overview of the sector and a description of the firms that exist within it. It explores the creative industries' differences and similarities to firms in other sectors; their strengths and their weaknesses; their aspirations; their foundations for success; and their possible points of failure. The paper also includes a brief review of a viable growth model for creative industries and how it informs the role of external knowledge in firm success. Finally, the paper provides a discussion of how Enterprise Connect (EC) can provide assistance to creative industries SMEs.

This paper is designed to be read in conjunction with another study commissioned by the Board, the CIE's *Creative Industries Economic Analysis*. The aim is to provide a solid basis for the deliberations of the Board as they develop recommendations for the CIIC.

What are Creative Industries Firms?

Providing a description of creative industries firms which accurately encompasses all the firms within the sector is fraught with difficulties as the sector is extraordinarily diverse, not only in the types of firms, but also the way in which these firms do business (The Work Foundation, 2007). A number of researchers have attempted to provide definitions of the creative industries sector which covers the diversity within the sector. A brief summary of some of these definitions is provided in the following paragraphs.

The Work Foundation's 2007 paper, '*Staying Ahead*', concluded that creative industries' firms have a core business model in common. Creative Industries businesses are based on the generation of ideas with expressive value which can be commercialised.

The UK's Department of Culture, Media and Sport (DCMS) defines creative industries as 'those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property' (DCMS, 2001).

A more recent definition was proposed by Potts et al. (2008). These authors argued that current definitions do not define the creative industries adequately and instead proposed that creative industries should be defined as a class of markets characterised by social networks of supply and demand called social markets.

The ARC Centre of Excellence for Creative Industries and Innovation (ARC CCI) defines them as 'a set of interlocking segments of the economy focused on extending and exploiting symbolic cultural products such as the arts, films, interactive games, or providing business-to-business symbolic or information services in areas such as architecture, advertising and marketing and design as well as web, multimedia and software development. Most often, creative industries involve the application of creativity and imagination to produce and deliver unique or customised products from incomplete or abstract specifications received either from a client or from a desire for personal, artistic exploration'. (ARC CCI web site). The ARC CCI also include a breakdown of the sub-sectors they believe make up the creative industries. These are:

- Music and Performing Arts
- Film, Television and Radio
- Advertising and Marketing
- Software development and Interactive Content
- Writing, Publishing and Print Media
- Architecture, Design and Visual Arts.

The final definition highlights the heterogeneity of firms in this sector. It also highlights the need for caution when discussing the creative industries as a sector. There are similarities between firms in this sector but equally there are many differences. Even within a sub-sector, the range of businesses is huge, for example, there is a world of difference between an architect working in a firm and a visual artist.

The Centre for International Economics (CIE) has exercised caution in their recent analysis of firms within the Australian creative industries sector, looking at the sector as a whole as well as breaking down analysis of the sector into the sub-sectors identified by the CCI (CIE, 2009). A brief discussion of the data contained within the CIE report is provided below.

Australian Creative Industries Economic Data

IBISWorld estimates the industry gross product of the creative industries at ~$30.8 billion in 2007/08. This is a 2.8% contribution to GDP which is less than manufacturing but greater than industry sectors such as communications and agriculture, fisheries and forestry. In the past few years, the sector has grown at an average of 3.4% which is similar to the rest of the economy. In 2006, 286,000 people where employed in the creative industries. IBISWorld estimates this rose to ~317,000 people in 2007/08. There were ~107,000 firms operating in the creative industries in 2007. Whilst the total number of creative industries business has been relatively stable over the past few years the total number of entries and exits from the sector are slightly higher than rates in other sectors which points towards volatility. Finally, similar to manufacturing, the majority of firms (97%) are small in size employing less than 20 people (CIE, 2009).

The CIE also provided a breakdown of data into the six categories defined by the CCI. Key results included (CIE, 2009):

- In recent years, the contributions of each sector to creative industries output was:
    - 3.5% for music and the performing arts
    - 15% for film, television and radio
    - 3% for advertising and marketing
    - 44% for software development and interactive media
    - 22% for writing, publishing and print media
    - 25% for design and visual arts
- Contributions for employment were (CIE):
    - 7% for music and performing arts
    - 12% for film, television and radio

- 3% for advertising and marketing
- 39% for software development and interactive media
- 14% for writing, publishing and print media
- 12% for output

The UK has also undertaken a fairly extensive look at the economic and industrial profiles of their creative industries (The Work Foundation, 2007; Frontier Economics, 2007) and there are some useful conclusions that likely also reflect the situation in Australia.

A number of the creative industries sectors have a cyclical nature to their economic activity, particularly software, computer games and electronic publishing, as well as the advertising sectors. This cyclical pattern is also reflected in investment spending and spending by households on creative outputs. It makes sense that this is also reflected in how profit and employment of the creative industries varies over time (The Work Foundation, 2007).

Creative Industries Firm Business Models

The diversity of business models within this sector is at least partially illustrated in the following diagram from the London Business School and London School of the Arts' Centre for Creative Business *(Figure 1)*. Some creative industries businesses do not necessarily have a market for a product before it is produced but creative firms who provide services, such as architects and advertising agencies, often have a market or a client pre-determined.

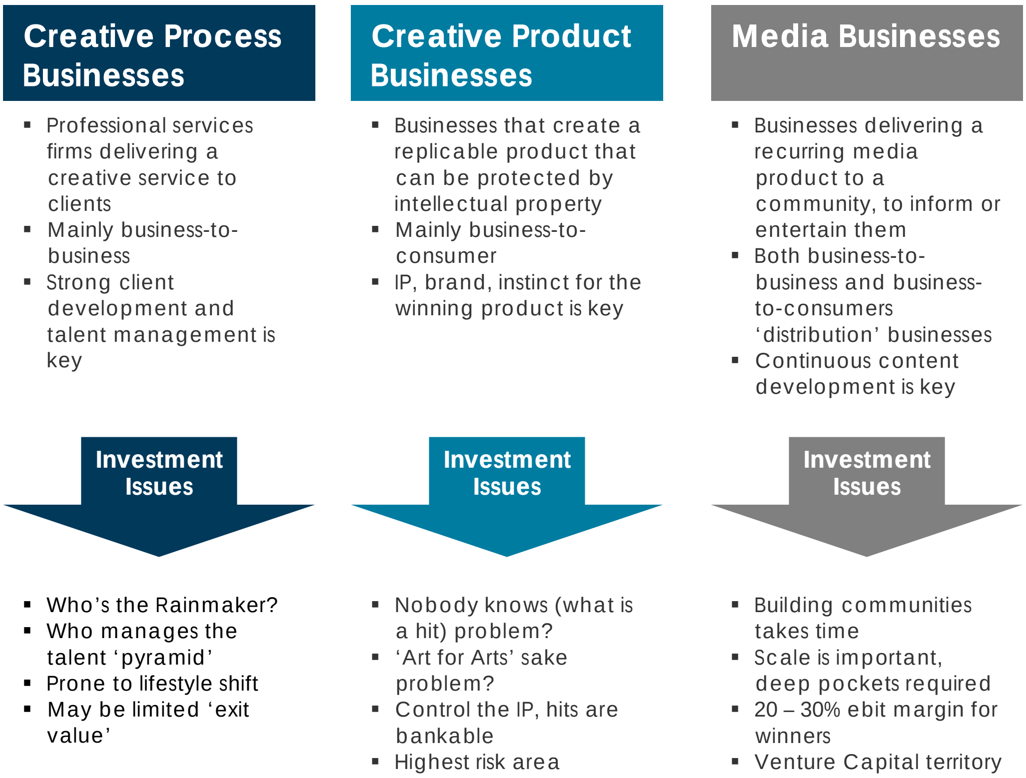

Figure 1: Creative Industries Business Models *(taken from Centre for Creative Business)*

Creative industries firms, such as architects, also often know the value of the project prior to completing it as they operate within a fee structure, while others (e.g. filmmakers) have no real idea of the likely economic performance of particular projects.

BARRIERS TO GROWTH – PERCEPTION VERSUS REALITY

NESTA carried out a survey of creative industry firms exploring their perceptions about barriers to growth. Limited access to new customers is the key barrier to growth to creative businesses as indicated by a study *(Figure 2)* for NESTA in the UK (ICM, 2006b). This issue is more evident in the smaller SMEs, with 47% identifying lack of access to new customers as a barrier to growth. Larger SMEs had more trouble raising investment and training staff.

It should be noted that these findings reflects the perspectives of the SMEs themselves. SMEs only know what they know, and their perceptions about the barriers they face can be different to those of an external observer which the next section discusses.

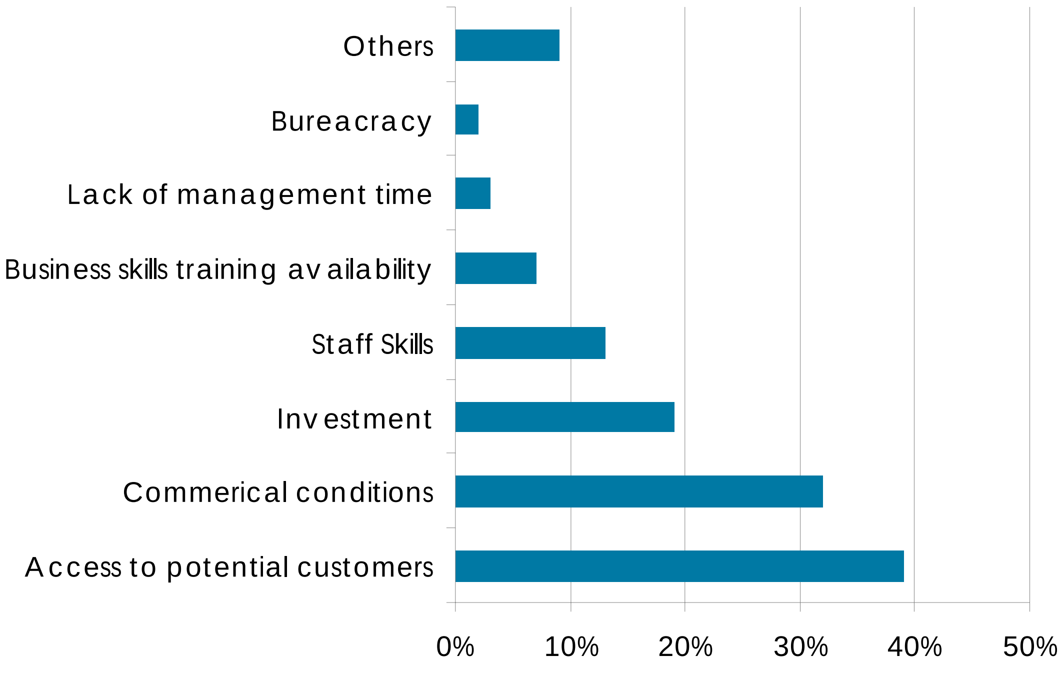

Figure 2: Creative Business Survey: Response to "Which two or three of the following are the key barriers to the growth of your company?" *(ICM, 2006b)*

PATHWAYS TO SUCCESS FOR CREATIVE INDUSTRIES FIRMS

There has been a lot of research over many years on how firms grow or progress and what determines success or failure.

In 2005, Bessant et al. prepared a report for the then UK Department of Trade and Industry (DTI). This report provided a review of the various models that try to outline states and stages of business growth. There were (and are) many different models proposed for how firms develop and what their characteristics are at each stage, below is one example used by the Centre for Creative Business (*Figure 3)*.

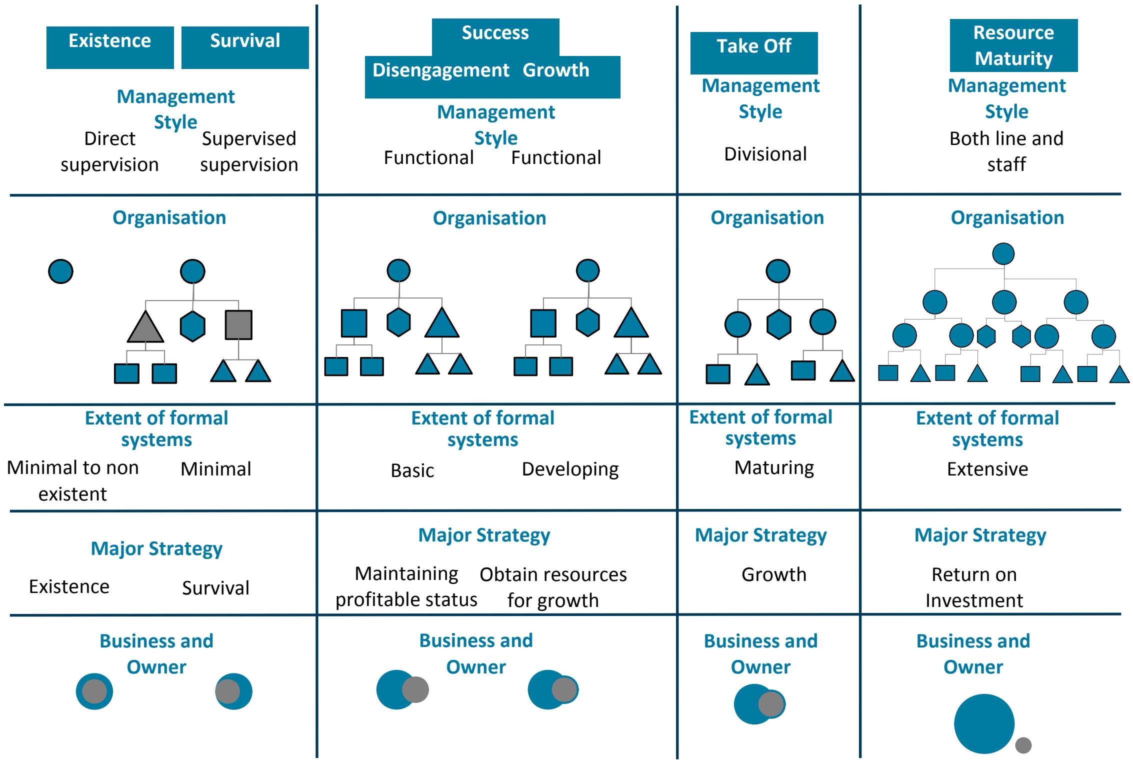

Figure 3: Stages of Development *(taken from Centre for Creative Business)*

However Bessant et al. disputed the common belief that firms move through a series of predictable stages starting at 'birth' and ending in 'maturity 'or 'death'. They also disputed the assumption that businesses face crises typical of each stage. Furthermore, they noted that a large number of these growth models were based on the studies of a very narrow range of firms such as high growth firms and those in the advanced technology sector.

When applied to firms in other sectors such as services, the models failed to properly match what occurred in reality with these firms. There is a serious problem with these models if they are used by businesses to plan strategically or by governments to inform business policy.

In light of this, the authors developed a different model for business growth which is designed to apply to all businesses. Enterprise Connect has been using this model in its development. This model does not assume typical stages for firms or particular problems at each stage. Instead, the model assumes that through their lives growing businesses can face a series of crises or 'tipping points'. At these tipping points, a firm needs to tackle a challenge threatening its growth in order to continue growing. Avoiding changing forces them to resign ambitions for growth.

The extent to which firms are able to address these issues themselves depend on their self awareness and 'knowledge state'– their ability to absorb and use knowledge. When combined, tipping points and knowledge states, can fit any firm and inform both the firm and advisers about the state of the firm and its needs.

The tipping points highlighted are:

- **People management:** progressing from run by an original owner, to run by partners, to a point where tasks are delegated and people need to be managed. This point may be repeated when:
  - A firm has too many people to be managed directly by the owner
  - Offices are set-up in other regions
  - Different product or functional teams are established.
- **Strategy:** moving from an opportunistic approach of accepting whatever work is available to a strategy of targeting and accepting certain types of work/client or developing a brand and market position. This point may be repeated when:
  - new products are developed
  - new markets are entered
  - new competition or business models arise.
- **Formalised systems**: 'moving from an informal approach to acquiring customers, storing information, controlling expenses, etc to formalised business systems that ensure consistency and reduce the risks of things going unexpectedly wrong. This point may be repeated when existing systems produce errors or prove unable to meet changed requirements, or where their efficiency is below competitors.'
- **New market entry:** 'either into new customers, new areas or by new products. This includes adapting or replicating the existing business model to the new market, scaling up the business and understanding new customer needs. This point is repeated at each expansion event.'
- **Obtaining finance:** 'getting funds to grow. Moving from reliance on initial funders to outside finance providers and the pressures and constraints they will place on the firm. This point is repeated at each significant growth spurt.'
- **Operational improvement**: 'moving from 'if it aint broke don't fix it' toward an understanding of process capabilities and best practices in, e.g. marketing and sales, product development, operations management, distribution, supplier relations.'

Some of these tipping points are more common at different points in a firm's life however the model allows for the possibility of a firm not experiencing a particular 'tipping point' or of experiencing some more than once during its life.

It should be noted that there is little evidence that technology is a factor which inhibits growth and so does not appear as a tipping point.

The other element of the model is to combine these tipping points with the absorptive capacity of firms - that is, the firm's ability to absorb and use different sorts of knowledge. The authors outline four levels of absorptive capacity:

- Ignorance of key issues;
- Awareness of key issues;

- Knowledge and understanding of key issues and solutions; and
- Implementation of actions to address key issues.

There is no order or linearity with these states.

When the levels of absorptive capacity and the tipping points are combined they form a two dimensional framework for the classification of a firm's growth states. It highlights both the firm's problems and also where its knowledge needs to go. A diagram is presented below *(Figure 4)* of the two-dimensional model.

For individual firms, tipping points can be prioritised. For each tipping point, the firm's need for help (interventions) is represented as the need to raise its absorptive capacity to higher levels.

This informs thinking around the required interventions for a firm as well as who is best to assist in these interventions i.e. internal or external such as other firms, research institutions, Business Advisers or government.

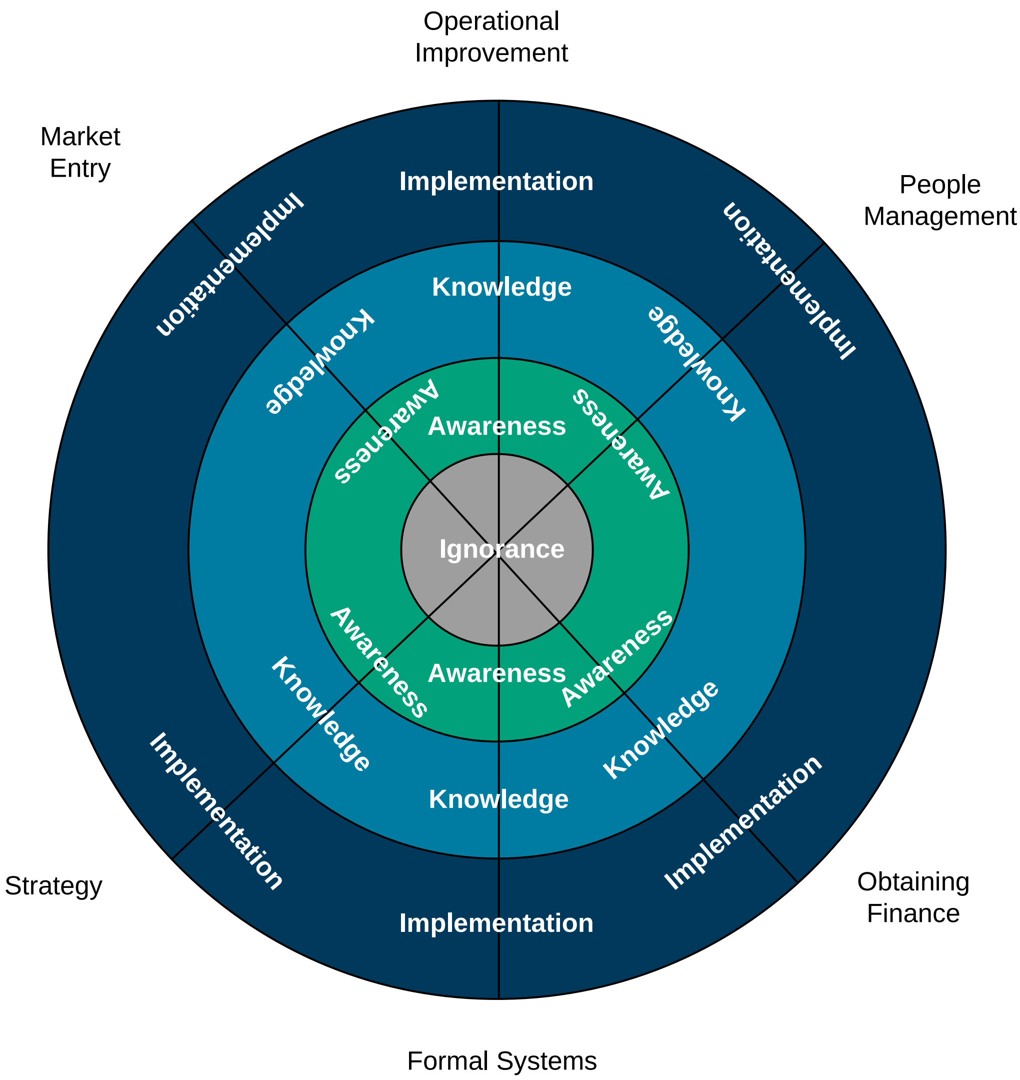

Figure 4: A two-dimensional model of business growth (*taken from Bessant et al. 2005)*

Most research into strategies aiming to improve a firm's absorptive capacity have focussed on developing networks and the placement of experts within firms with some evidence of success using these policies. The authors note, however, that there is little evidence of government help to assist firms with the first step in absorptive capacity – awareness raising. Currently, policies seem to assume that a firm knows what it wants to do. However, SMEs in particular often do not have either the time or the expertise to identify their problems beyond the immediate.

Enterprise Connect would contend that that this model is a more useful approach when considering the 'evolution' of creative firms – and how our services may help.

CHARACTERISTICS OF CREATIVE INDUSTRIES FIRMS

The tipping point approach is generic - it can be used with any industry or firm. However it begs the question – are there particular features of creative industries firms that might be unique to them? This next section discusses the various drivers of success and failure and whether they are particular to this sector.

As has been noted, the creative industries include a very diverse range of businesses, and it needs to be recognised that drivers of success and failure in the creative industries will depend on particular firms' operating space. However, acknowledging that each creative business will face different obstacles, one can still identify common features.

Characteristics and observations more commonly associated with the creative industries include:

- Rapid growth of multi-skilling with workers holding down several jobs at one time, for example in the fashion industry (McRobbie, 2002)
- Being highly reliant upon informal networking, without the support of institutional 'trade associations', so they are more likely to devise individual solutions to systemic problems (Beck 1997, cited in McRobbie, 2002)
- Disparate, fragmented sector with no unifying body, particularly in Australia (DEWHA, 2009)
- Different points of innovation and export in growth – creative industries firms tend to engage in the international market earlier than similar sized businesses in other sectors (DEWHA, 2009)
- Value of the product and true market for the product, in some cases, is not fully known until it is produced (The Work Foundation, 2007)
- Often rapid adopters of new technologies (CIE, 2009)
- Core work is frequently project-based (McRobbie, 2002)
- Clustering of firms together in a geographical location (generally medium to large sized cities) with extensive interactions between firms (Lazzeretti et al., 2009)
- Small businesses who are often sole operators (The Work Foundation, 2007)
- The often intangible nature of the product (The Work Foundation, 2007)
- Individualistic nature of creatives leading to management challenges (The Work Foundation, 2007)
- Greater difficulty in securing finance (The Work Foundation, 2007)
- Churning of businesses within the sector (CIE, 2009) *(Figure 5).*

Entry and Exit Rates of Firms in the Creative Industries Sector

The churning of businesses is slightly greater in the creative industries sector than in other sectors of the Australian economy.

This can confer advantages and disadvantages on creative industries firms. Advantages include: new entries generate innovation, drive productivity growth and smaller businesses have more agility to respond to changes. Disadvantages include: uncertainty caused by dynamic nature of industry, employment implications and cost of set up of new businesses.

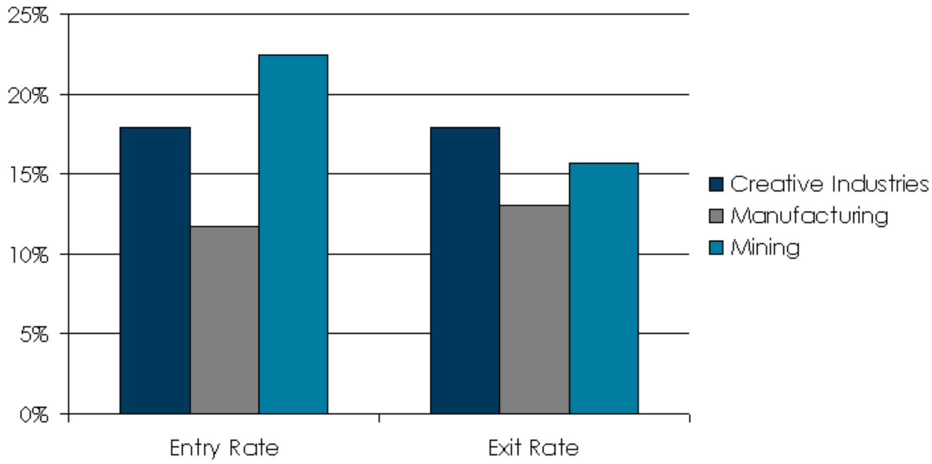

Figure 5: Comparative Rates of Entries and Exits in 2005-06 *(ABS Catalogue 8165.0)*

The Specific Challenges Faced By Creative Industries SMEs

Strategy

Strategy is critical as an integrated, overarching concept of how the business will achieve its objectives and is important in unifying and directing the business forward (Hambrick and Fredrickson, 2001). One of key issue that has already been identified in the Creative Industries Business Reviews to date is the lack of strategic planning in the firms (Enterprise Connect, 2009a). The creative firms have visionary statements but lack the strategic plans to realise these aspirations. NESTA research indicates that in UK creative businesses that turn over more than a million pounds, only 44% of senior managers have business strategy training (NESTA, 2006).

Given the diversity of firms and business models within this sector, the range of different strategic challenges is extensive. It is not the role of the Business Adviser or the program to provide specific advice on the right strategy, however it is their role to have a conversation with clients about their business goals and aspirations, what they see as their core competencies, whether they have a strategy and whether it is used to underpin the direction of the client.

MARKETS FOR CREATIVE INDUSTRY OUTPUT

Customer demand is an obvious driver for all firms in all industries. The NESTA survey cited above has it rated number one (and that was pre-recession). The consumption of much of the output from creative industries is dependant on consumers' prior education and experience. In recent years it has been noted that as consumers have become richer and more educated their demand for individualised goods and services has increased, with this flowing through to those creative industries selling into consumer markets.

However there are still barriers, with a major issue for some creative businesses being the broad lack of appreciation about the value-adding aspect that creative business services offerings can provide to other industries (George, Sir Cox, 2005). If consumers have not used value-added services like architecture, or firms have not used design or advertising services before, then they are unlikely to understand the value that such services can deliver.

This is not unique to creative industries – one of the main justifications for the Enterprise Connect program is that firms do not know the potential value of business advisory services and will probably only learn by trying them out.

ACCESS TO FINANCE

Access to finance is important for business growth at different points in time and it can be difficult for any business, particularly small ones, to successfully obtain investment for expansion. NESTA outlines that one of the impediments to the creative industries access to finance is due to a limited access to 'high quality sectoral intelligence', as well as the perception with financiers that creative businesses are lifestyle focussed, rather than goal orientated.

As the production of creative products and services is highly unpredictable, it raises the risk profile, and therefore investors demand higher financing costs compared to more traditional businesses (The Work Foundation, 2007). Creative businesses that are not producing tangible products may find it difficult to demonstrate expected financial returns. Banks will look for solid assets to loan against, venture capitalists look to invest in the business team with a profitable track record. This issue is not isolated to the creative industries. For example, science, manufacturing, technology and newly formed companies all face the difficulty of demonstrating competency to potential investors.

In order to access finance, SMEs need to present business proposals that demonstrate the capacity for the firms to take responsible commercial decisions. The issues facing creative businesses is that they have limited internal capabilities to initiate sound business strategy (ICM, 2006a and Enterprise Connect, 2009a) as well as a limited appreciation for strategy (ICM, 2006b).

An illustrative example of the difficulty of obtaining finance can be shown using the example of the Australian digital creative industry. As growth in this industry is reliant on new product niches and access to new customers, financing is imperative. The volatility of revenue streams in the Australian digital creative industry makes exporting vital to stabilise revenue streams (Higgs and Kennedy, 2003). However, the cost and skills required are too high on most businesses' capital base and combined with low margins and profitability means additional external capital is difficult to obtain from commercial sources (ibid).

INTELLECTUAL PROPERTY (IP)

IP is an increasingly important consideration for creative industries firms due to new market opportunities that an appropriate IP strategy can open the business to; or conversely, the risk of not being aware of the financial impact an ineffective IP strategy can have on the business.

Protection and enforcement of IP is a complex issue for the creative industries. A creative firm's IP strategy will be very particular to the kind of creative industry the firm is operating in. For example, it may be a critical consideration of a software design company to patent software, where protection and enforcement of that protection is crucial to the ongoing firm's revenue stream (OECD, 2007). By comparison, an architect may choose to never patent a novel design solution as it is expensive and irreverent against the practice of architecture.

Infringement of IP undermines a business's ability to recover costs and/or benefits of the investment in IP (OECD, 2007). The OECD outlines several impacts on a business:

- **Sales Volume and Price** – Reduction in sales due to counterfeited goods, placing downward pressure on prices.
- **Brand Value and Firm Reputation** – Long-term damage to the companies' creative IP, in particular luxury designs, resulting in weakened brand equity.
- **Royalties** – Particularly important to the music and film industries as royalties are an important revenue stream.
- **Investment** – Increasing the risk profile of creative businesses that are highly vulnerable to counterfeiting and piracy leading to reduction in incentive to invest.
- **Costs of Protection** – Enforcement of IP is particularly costly for SMEs as well as also damaging the brand. An example of this is the enforcement of music industry against peer to peer downloading, and the backlash against record label brands.
- **Scope of Operations** - A reduction in profit and loss of brand value has led to businesses changing scale and type of operations (OECD, 2007).

It is difficult to definitively outline a successful IP strategy pathway for a creative business. The rapid timing and consumption of some creative output (e.g. fashion designs) negates the benefit of formal protection compared to the lasting brand and design protection issues (e.g. industrial design), and ongoing revenue streams from other creative output (e.g. film).

IP ownership resulting from conceiving and funding a production is an issue flagged in the digital creative industries (Higgs and Kennedy, 2003). Copyright ownership can be further complicated with contractors in a creative business retaining individual rights. Creative industries firms need to be aware of the implications of IP issues in order to mitigate the risk of litigation, and also generate reliable revenue streams.

Management Skills and Organisational Creativity

In order to create a sustainable business entity, the creative organisation needs to harness soft skills through management, marketing and budgeting (The Work Foundation, 2007). Success of a creative business is partially reliant on organisational creativity as establishing a creative workplace culture improves creativity and firm performance (DTI Economics, 2005). The performance of a firm is positively correlated to the measure of its creativity (The Work Foundation, 2005) which indicates that the success of a creative firm is partially attributable to how well the organisation is run. This is not a feature that is only true of creative industry businesses, but any business that is reliant on innovation to survive and grow.

A study of Australian creative workers showed that those working in the creative sector have different career motivations than those from other industries (Bridgstock, 2008). Creative workers who hold traditional career orientations are less likely to be successful. Entry level creative workers with low career management competence want job security and have low career success. Those with autonomy, interest and challenging work as motivations are more likely to be successful (ibid).

There is some evidence to suggest that creative workers are more responsive to a sense of ownership and recognition of their creative output, rather than responsive to financial incentive systems (Bridgstock, 2008). A creative worker may require different Key Performance Indicators compared to a manufacturing worker, but will still demand a clear sense of direction and purpose as to what and why they are creating and how it contributes to the strategy of the business (Bridgstock 2008; Amabile et al, 1996).

Although it might be argued this is a distinct set of motivations not found in other industries, there has been cross-sectoral empirical work done in the UK on the characteristic of high performing firms (in terms of growth and financial performance). It found that there is no common organisational structure. However the culture of the better performing firms was characterised by:

- Informality and continued dialogue supported by simple processes.
- Open culture of sharing information between peers and networks of managers.
- Visible and accessible leadership and management.
- Distrust of status quo, valuing quality rather than quantity, and have a focus on the long-term and on outcomes.
- The culture and employee relations are characterised – not codified – by pride, innovation and strong interpersonal relations.

It is often noted that creative firm CEOs and managers did not generally aspire to set up and/or run a business, and are not likely to be from business or management backgrounds. They went into business because of their technical background and their ability to create a product or service for which there is demand. This is not unique to creative firms, as Enterprise Connect has found that the vast majority of its current manufacturing and service client founders/CEOs did not aspire to run a business but had backgrounds as specialists.

It should also be noted that the business goals of many existing Enterprise Connect clients are not necessarily growth/profit/expansion. Many firms, particularly family firms, have a complex set of drivers and objectives.

Networks and Clustering

As creative industries SMEs can be more reliant than other industries on the transfer and exchange of intangible information dependant on trust and shared context, establishing and maintaining networks is important but difficult (The Work Foundation, 2007, p.148). This can especially the case for time challenged SME CEOs. Creative workers are highly reliant on informal networking, not necessarily with the support of institutional 'trade associations' (McRobbie, 2002).

The dynamic nature of those creative industries firms that form on a project basis makes it difficult to follow generic pathways. Knowledge capture is an issue facing firms that form on a project by project nature (such as film companies).

A study in the US advertising industry demonstrated (Arzaghi and Henderson, 2006) that if advertising agencies are geographically in close proximity to each other they share valuable information spillovers, but that in just half a kilometre those benefits weaken. This contrasts with network studies of manufacturing industries that have found little diminishing of network benefits as businesses spread geographically (ibid).

In the creative industries social and technological links complement each other, and enhance productivity and profitability.

TECHNOLOGY

The tipping point analysis dismisses technology as a major barrier to growth – even though it is often the focus of government policy. This is because technology is often tied to the production/creative process and so is an area of relative interest and expertise within SMEs.

There is a case that creative firms warrant the elevation of technology as a barrier. The UK Technology Strategy Board has recently released its Creative Industries Technology Strategy 2009-2012. Technological advancements are often very positive opening up technology driven trends (e.g. social networking), new products, services, distribution channels, business models, and even new sectors. Open source software is reducing costs, and the report notes that it encourages cross-disciplinary convergence of sub-sectors. The creative industries have much to offer other industry sectors, from applying design thinking in technology based R&D projects to using computer games-based technology in training and education.

However on the negative side, technology also changes market channels (e.g. music industry as a result of digital online content i.e. peer to peer file sharing), creates IP protection issues, and challenges network security. Ultimately it is the unpredictability and uncertainty of such a rapidly changing environment that makes it a threat.

FINDINGS FROM ENTERPRISE CONNECT SO FAR

It is worth reviewing what Enterprise Connect has learnt in the almost two years it has been operating, both about firms and their problems. Whilst the majority of firms who have been through the program are manufacturing firms in the $1.5m to $10m turnover bracket, there are within that a small number of creative industries firms. As of 30 June this year, the program has completed Business Reviews with 1124 firms with a further 652 Tailored Advisory service (TAS) activities undertaken.

Business Reviews contain two related by different categories of recommendations – those that the Business Adviser believes can be addressed by the firm (internal) and those that the Business Adviser believes require external help. Below is a breakdown of the ratios of recommendations being made in the Business Reviews so far *(Figure 6).*

A general observation has been that the management and systems that underpin many clients (including quite large firms) is often rudimentary. Given this, most of the recommendations relate to general business improvement or bottom line improvement or strategy/business planning rather than expansionary (top line) growth (hence the relatively low numbers in product and service development.

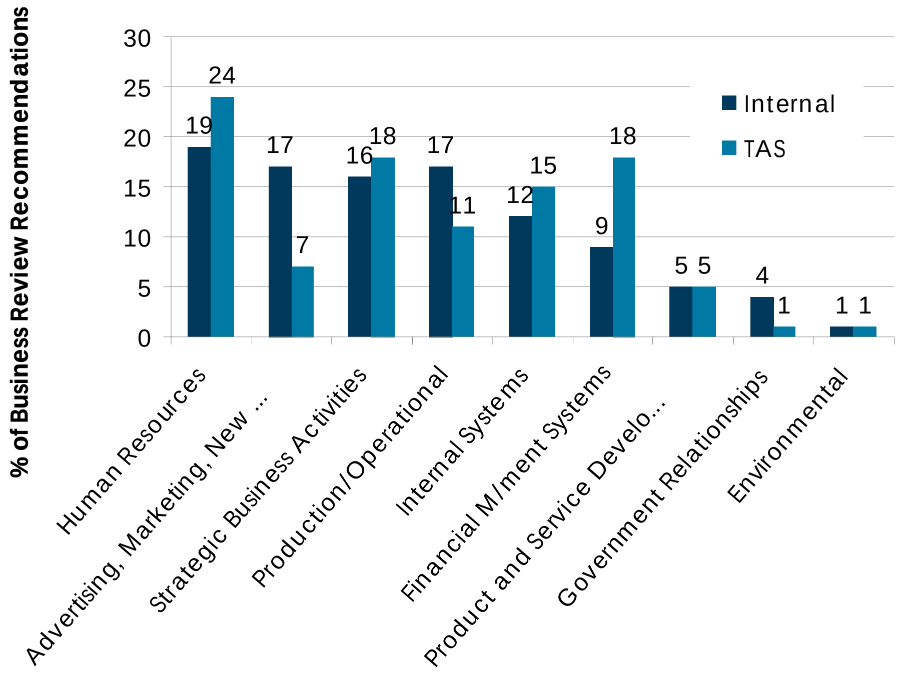

Figure 6: Enterprise Connect Business Review Recommendations

Human Resources: Includes general workforce training/HR structures/retention strategies, succession planning, and management level change management/leadership training. Business Advisers have observed that many firms lack basic HR systems (e.g. job descriptions), succession planning is a major issue in well over 20% of client firms, and leadership/change management training.

Exploring new markets: Includes market analysis/development/appraisal, competition strategy, branding and website development, channel distribution. Business Advisers have observed that general marketing skills are crude, as often is the level of awareness about market conditions/competitors etc. Many firms have serious reliance on one buyer.

Strategic Business Activities: Includes formal business planning, the formulation and implementation of business goals and corporate governance issues (i.e. board structures). Many clients do not a business strategy, do little planning nor any ongoing measurement. Given the preponderance of founder/CEO or family firms, corporate governance is often an issue.

Production/Operational: Includes factory lay-out, new equipment and maintenance and process improvements. Given the current economic climate, the potential for quick financial wins from operational improvements has made this area one clients are keen to focus on.

Internal Systems: Includes administrative processes, QA, OH&S, customer support systems etc. See previous comments about the rudimentary systems in many clients.

Financial Management Systems: Accounting systems (financial reporting), cashflow management, exploration of alternative forms of capital; Factoring, lending arrangements and credit. See previous comments about the rudimentary systems (and knowledge) in many clients. Clients report that the relatively basic financial analysis that forms part of the Business Review is often the most detailed and tailored information clients have ever received.

Product and Service Development: IP issues; diversification and product innovation. As discussed, often not the main focus of Business Reviews. Business Advisers report that clients are often actually undertaking R&D – but do not know it – and that it is rarely strategically driven. Most view the word 'innovation' with some suspicion.

Environmental: Improving business sustainability through environmental awareness. Rarely commented on and possibly reflects Business Adviser awareness.

Many Business Advisers observe that firms need to develop a basic set of systems, and some sort of forward plan or strategy on which to further develop their business which they currently lack. It is only when these are in place that firms can sensibly think about growth expansion options. However it may also represent the strengths of the current Business Adviser cohort.

Enterprise Connect is actively considering how to best identify and value add to clients ready and able to commit to a growth path. This is because the future competitive position of Australian SMEs cannot just be based on operational excellence, as the next section outlines.

WHAT IS THE FUTURE COMPETITIVE POSITION FOR AUSTRALIAN SMES?

The above section outlines the sorts of issues Enterprise Connect has been finding in its clients so far. As noted, many relate to operational issues.

Enterprise Connect asked the Australian Business Foundation to capture current thinking and 'state of practice' about the capabilities needed to drive genuine, productive and lasting change in Australia's small and medium sized enterprises that would allow them to prosper and remain competitive. The paper, although generally focussed in manufacturing SMEs, made the following reflections on the key intervention points likely to have a positive effect on SME ambitions and capabilities for growth and development.

Five areas for action were highlighted as follows:

1. The end game is to increase the ability of SMEs to generate new sources of distinctive and enduring competitive advantage for their businesses. This implies willingness and capacity to embrace change, being prepared to go beyond sound basic business improvements to transformations in capabilities across the board. It requires an outward-looking focus and an eye to the future to detect early warning signals of shifts in the business environment to be capitalised on or defused. Creating fresh sources of competitive advantage must be the overriding goal of a model for innovation and enterprise development for SMEs.

2. Focus on activities that reinforce the revealed preferences shown as the reality of successful business innovation, namely on the skills and capabilities that are relentlessly market-responsive and primarily focused on excelling at solutions and opportunities for customers.

3. Make it easier and more likely that SMEs can compete on knowledge, by multiplying the opportunities and reducing the transaction costs for enterprises not only in accessing knowledge, but absorbing it, managing it, learning from it and deploying it to economically useful ends. In modern economies, knowledge is the single most important business resource, and an enterprise's capacity for knowledge and its smart application is decisive to sustainable business success.

4. As a priority, invest in mechanisms that actively assist SMEs to forge new webs of connections, partnerships and collaborations that underpin successful

innovation in firms, industries, regions and nations. Deliberate and disciplined efforts are required to encourage the collaborative, trust-based relationships needed for knowledge-sharing and capability-building. It is through such collaborations that enterprises are put in touch with the know-how, resources, technologies, skills and opportunities that are a prerequisite for the growth of their businesses.

5. Be more ambitious in the benchmark set for innovation capabilities in SMEs. Preference must go to fostering proficiency in higher order forms of innovation that result in explicit and novel sources of competitive advantage, at the expense of the routine innovations and improvements that are 'price of entry' for competitive businesses in knowledge-based economies. Business model innovation and managerial and organisational innovation have historically been underdeveloped in enterprise improvement programs. This deficiency should be redressed as a matter of priority in any new model of enterprise development for SMEs.

Conclusion - So What does this mean for Enterprise Connect and Creative Industries SMEs?

Enterprise Connect has a core philosophy – that our interactions with our clients are driven by their particular circumstances and business goals. This means we are wary about being overly prescriptive about becoming 'solutions driven' – a major criticism by client firms of consultants is that cookie-cutter solutions are invariably provided regardless of the specific needs of the client.

At one level, every firm is different, regardless of their size, industry, structure etc. SMEs can have very different goals and growth aspirations. At another level, most SMEs face very similar challenges and potentially very similar solutions. A well run SME is a well run SME.

The Enterprise Connect 'tipping point' framework captures both aspects. These core elements of people management, strategy, formalised systems, new market entry, obtaining finance, and operational improvement, can impede or drive growth, depending on how they are tackled by the firm. They are also broad enough to encompass the specific issues faced by each firm.

Individual creative industry firms may face particular issues that are generally not found in other sectors – although few of these issues are truly 'exclusive'. To a great extent it does not matter whether these issues are exclusive to creative firms. If Enterprise Connect clients are likely to need advice concerning these issues, the program needs to be able to either provide it or at least facilitate it.

These include;

- Sector/firm specific strategic issues
- Demand
- Finance
- Skills & education
- IP
- Management skills and organisational creativity
- Networks and clustering, and
- Technology

The empirical evidence suggests that creative industries firms do have a higher rate of firms entering and leaving the market. To some extent this is a side issue for Enterprise Connect – as our mandate is to assist established firms. However the program may need to consider whether – and how – to service ‘project based’ firms if they prove to be a significant grouping.

There is evidence, albeit anecdotal, that the unique skills and contributions of individuals within the creative sector might negate generalised business growth models. People management/HR issues are difficult regardless of the industry and most clients would probably benefit from specialist services.

It should also not be assumed that generalised business growth models are always being followed in other sectors – family businesses (which make up a majority of Enterprise Connect clientele) have a complex range of drivers and objectives.

Increasingly, Australian SMEs will need to compete by using knowledge to create new and distinct products and services. Today assets are mobile, so what makes a firm distinctive really counts – market intelligence, ‘ownership’ of customers, tacit know-how and skills and lessons from past mistakes. Intangible assets can create wealth too. Competing on price and/or quality will deliver diminishing returns, we are already uncompetitive on price and quality can be replicated.

Many if not most creative firms are already in the space of creating new knowledge – rather than competing directly on price or quality.

Given this, there is possibly greater justification for Enterprise Connect to focus on providing advice around business fundamentals to creative industry firms than those in other sectors. The ‘creative’ nature of some employees and the potential business aspirations and motivations of owners would suggest that making them more ‘innovative’ is not the issue. Rather, it is enhancing their capacity to extract sufficient economic value from their innovations that is where Enterprise Connect can most value-add. Other areas of potential focus include networking, given the importance proximity appears to have to the creative industries networking activities may be a particularly useful endeavour – linking creative industries firms but also drawing them into the wider network of Enterprise Connect where they have the potential to contribute to firms in other sectors as well as picking up resources from other sectors.

The study of data obtained from the creative industries firms who undertake the Business Review, or for that matter that approach the centre, will provide invaluable, real world information about Australian creative industries firms, their strengths, their weaknesses, their ambitions, their needs and their wants. This data, like the data on manufacturing firms, will assist in informing the policy and program direction of the centre as it establishes itself and matures.

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